
Why Rollovers Matter: The Average Joe or Jane Works for 10 or More Employers During a Career

The average American changes jobs 10 to 15 times (with an average of 12 job changes) during his or her career. The Bureau of Labor Statistics reports that people born between 1957 and 1964 held an average of 11.7 jobs from ages 18 to 48. Among jobs started by workers age 25 to 29, 87 percent had an average employment length of fewer than five years.

What’s more, almost 15 million Americans with 401(k) accounts change jobs ANNUALLY, according to Retirement Clearinghouse LLC, a company that assists in transferring old balances to new plans.

It isn’t just job-changing that can result in lost benefits but whether the former employer goes out of business. According to Ellen Bruce, the former director of the Pension Action Center, a participant may become “lost” as a result of corporate mergers, bankruptcies, shutdowns or the sale of a business. Or the money could become lost because departing employees forgot to move the money over to their new employer’s plan. Nearly half of all retirement plan participants fail to roll over their accounts, according to Hewitt Associates. Finding missing participants can be expensive; one member of the ERISA Industry Committee estimated the employer cost for finding missing participants could be as much as $200,000.

Senators Warren, Daines Introduce Legislation to Find Missing Participants.

The Retirement Savings Lost and Found Act of 2018 (“RSLFA of 2018”), which had bipartisan support, proposed to address this problem by trying to reunite these 401(k) assets with their owners. Specifically, the RSLFA of 2018 would set up a lost and found online database to try and reunite the lost 401(k) assets with their owner. ¹The Employee Retirement Income Security Act Industry Committee and the American Benefits Council have expressed support of the bill. Despite bipartisan and industry support, the
RSLFA of 2018 has yet to be passed. It was introduced in the Senate in February of 2018, but to date there has been no further action on it.

The bill also increases the automatic rollover amount that would be transferred to the next plan from $5,000 to $6,000 and expands investment options for these rollovers to include a target-date or lifecycle fund, an investment product designed to preserve principal and provide a reasonable rate of return, and another option as the Secretary of Treasury may provide. For plan balances of $1,000 or less, if within six months of notification, the plan participant has not elected to receive a distribution directly or has not accepted any direct payment, the plan administrator could transfer the amount to the Director of the Retirement Savings Lost and Found or to an individual retirement account established by the Secretary of Treasury on behalf of the individual.

**Employees Should Select Their Rollover Preferences As Soon As they Start Working—And It Should be to an IRA, not the Next Employer's Plan**

I recommend that employees should be encouraged to open a rollover Individual Retirement Account (IRA) at the mutual fund of their choosing—most likely the Vanguard Group, Blackrock or T Rowe Price—as soon as they enter the workforce.

Workers should choose to have their balances rolled over to an IRA rather than a new employer plan for three reasons: their new employer will probably not allow them to move their balances to an account at the new job because they won’t be eligible to join the plan as soon as they start the job. And there is a strong possibility that if their next job is at a small business the new employer will offer no plan—21% of companies offer no plans—according to the Transamerica Center for Retirement Studies. Finally, the new employer may only offer a plan that features brokers pushing high-fee annuities that are hard to understand. What’s more, the worker will have a better sense of his or her retirement assets if most of them are in one mutual fund than if the balances are left at multiple employers. The only challenge may be that many mutual funds require a minimum balance before the account can be opened—for the Vanguard Group it can be as high as $3,000 although their Target Retirement Funds can be opened with as little as $1,000—so some workers may not have the option to roll lower balances over.

The Employee Retirement Income Security Act of 1974 already mandates that employers provide certain disclosures to employees about their 401(k) plan, but ERISA doesn’t require sufficient disclosures about what they can do with their 401(k) assets when they leave their job. If Americans are alerted to the fact that they can create a
single repository to deposit their 401(k) assets as they move job to job, that should prevent, or at least reduce, the loss of billions of dollars in 401(k) assets.

**Employees Should Have the Opportunity to Choose What to Do with Their 401(k) Balances When They Start a Job, Not Just When They’re Leaving It**

As soon as a worker starts a new job that offers a 401(k) plan, they should be offered the opportunity to fill out paperwork detailing the mutual fund company and fund type that they want the funds moved to once they change jobs. (Details on the suggested disclosures can be found on page 5.) Employees should be warned of the consequence of not making the decision, including the fact that the money may be hard to recover if the former employer is acquired or goes out of business, along with the financial penalty they will pay if they cash out balances instead of rolling them over. In addition, in order to encourage employees not to select a complicated high-fee annuity they don’t understand, policymakers should consider limiting the investment choices of these special rollover IRAs to target date funds that invest in index funds. Moreover, if these TDFs are treated as the default option, current DOL fee disclosures should be amended to require disclosure of not only the fund level fees and charges but the fees and charges against each sub fund so that investors can get a fuller picture of the total costs of these investments.

**IRA Rollover Advantages Compared to Plan at New Employer: Control Over Investment Options AND Lower Costs**

Rolling over the funds to an IRA gives workers the greatest amount of control over costs and investment options, according to the Vanguard Group. Administrative costs for IRAs can also be lower than funds in an employer-sponsored plan, along with featuring more choices when it comes to financial institutions and investment options. **In addition, workers should consider converting to a Roth IRA** if their career move means higher pay and higher taxes, which can be done by rolling the 401(k) directly to a Roth IRA. While taxes are owed on the converted amount in the year the conversion is done, distributions will be tax-free.

Consolidating accounts will also significantly reduce expenses, as Mike Piershale, CHFC, observes on Kiplinger.com While a transaction fee is often charged when you buy or sell an investment if you consolidate your accounts, you may have fewer total buys and sells, which could significantly reduce fees AND boost your net return. Also, some companies reduce or waive fees if your account reaches a minimum size, so
combining accounts increases the likelihood for this to happen, Piershale says. What’s more, once you reach age 70½, you must take a required minimum distribution from your pretax retirement accounts each year if your assets are in conventional 401(k) accounts (unless you’re still working) versus Roth accounts, which are already taxed. Failure to do so will result in a 50% penalty on the required distribution that was not taken. If you have multiple accounts, each financial firm will send you paperwork each year to take this RMD. As the years pass it can be easy to overlook paperwork that arrives and miss this required distribution.

These Disclosures Will Also Save EMPLOYERS Time and Money

Requiring disclosures to workers about the advantage of establishing a single IRA to roll their 401(k) assets into as they move from job to job will also help employers because they will spend less time and effort in seeking to reunite 401(k) participants with their lost assets. By implementing automatic rollovers, plan sponsors are looking to reduce administrative time and costs, according to Terry Dunne, managing director of automatic rollovers for Millennium Trust in Oak Brook, Ill.. Such plan sponsors "do not want to spend time on people who are no longer with the company, especially as their available resources are stretched thinner."

The Problem with Brokers and Rollovers: Why Workers Should ALWAYS Roll Over Old Balances to an IRA, Not the New Employer

Unfortunately, even if a worker were immediately able to transfer money from an old 401(k) account to one at a new plan, there’s a chance that a broker will steer them to an annuity—because the costs may be lower to the employer but “hidden costs” are higher to the employee.

Former President Obama took on the brokerage industry in 2015 by supporting a Labor Department proposed regulation that would subject those advising 401(k) participants to a fiduciary standard that makes them liable for putting client money into a mutual fund that pays the broker a commission whose annual returns are lower than a fund that pays no commission. The conservative cost of broker conflicts is $8 billion to $17 billion a year, according to Obama’s Council of Economic Advisers.

Why A Rollover to a Small Employer May Not be Wise: Small Companies Favor Broker-Based Plans Because of Lower Costs—to Them, But Not Their Employees
(Many) mostly small companies are finding out the hard way that the 401(k) plans they bought from insurance companies, usually set up as "group annuities," came with a variety of hard-to-find charges. Or, more aptly, the plans they were sold by people motivated by excessive commissions. All told, insurers have lured 18,000 companies into parking $185 billion of 401(k) assets inside group annuities and similar insurance contracts, according to an analysis by Larkspur Data Resources of plans with under $250 million in assets.

"Insurance companies cater to the smaller, less sophisticated part of the market," says Robert Prall, managing partner of Rx Investment Solutions, which advises companies on how to build low-cost 401(k) plans. "Every time we've gone into a company that has a group variable annuity contract, no one has really understood how it worked."

Group annuities' only upside is a tax benefit--for the insurers selling them, not for the 401(k) investors. It works this way: inside group annuities, legal title to the mutual funds belongs to the insurers. Among 401(k) plans designed for small companies, the total fees on some group annuities can top $1,000 per participant every year, or three times what low-cost 401(k) plans cost, according to data provider 401kSource.

Two thirds of workers are unaware that they're paying anything for 401(k) plans, according to a 2007 survey by AARP. Another 20% aren't sure. Even among the handful who understood that fees are deducted from their accounts, few could say precisely how much they're paying.

TEXT OF THE PROPOSED DISCLOSURE THAT SHOULD BE MANDATORY

The disclosure that Congress should require to be included in all enrollment materials to an individual enrolling in a 401(k) plan is the following:

"IMPORTANT: Since you have enrolled in your employer’s 401(k) plan, you should consider opening up a separate IRA to roll the assets in this 401(k) plan into if you leave your current employer. Here’s why: When you leave your current employer, your new employer may not have a 401(k) plan. Further, even if your new employer has a 401(k) plan, you may not be able to immediately roll the assets from this plan, into the 401(k) plan of your new employer. However, you can roll your 401(k) assets into an IRA, although there may be a minimum deposit—ranging from $1,000 to $3,000. Finally, rolling your assets over to an IRA rather than the 401(k) account at your next job will make it easier to see how much you’ve saved
for retirement, given that most Americans change jobs at least 10 times during the course of their career.

Once the employee leaves his or her job, employers should also be required to remind workers of their rights, which states the following:

“IMPORTANT: Since you were enrolled in your employer’s 401(k) plan, you should consider opening up a separate IRA to roll the assets in this 401(k) plan into when you leave your current employer. When you leave your current employer, your new employer may not have a 401(k) plan. Further, even if your new employer has a 401(k) plan, you may not be able to immediately roll the assets from this plan, into the 401(k) plan of your new employer. However, you can roll your 401(k) assets into an IRA.


Target date funds’ portfolios automatically reset their mix of stocks, bonds and cash over time, becoming less risky as they approach their target date. According to BrightScope, funds offered by The Vanguard Group and T Rowe Price regularly rank among the top 20% of their peer groups over the long haul.

As the popularity of these funds grows, more employers are using target-date funds as their “Qualified Default Investment Alternative” or “QDIA.” This means that, if a plan participant does not select an investment, the company could direct the participant’s assets into a TDF and not be liable for any potential losses. This employer protection was enacted in the Pension Protection Act of 2006, which helped fuel the popularity of TDFs. According to the Department of Labor, in 2016, 97.6% of retirement plans featured a TDF as the QDIA. Furthermore, JPMorgan estimates that a whopping 88% of new retirement plan contributions are expected to flow into TDFs by 2019.

CONCLUSION

In closing, we can prevent the loss of billions of dollars of retirement assets by reminding Americans to establish an IRA to serve as the single depository for their 401(k) assets as they change jobs. This single IRA can also be used by Americans for their retirement savings when they are employed by an employer that does not offer a 401(k) plan, along with making their own
contributions to the IRA, given that most plans feature a modest employer contribution of 3% of pay, compared to 8% of payroll for a conventional defined benefit pension. A single rollover will also make it easier for the worker to determine whether he or she needs to save more to reach their goal—the formula used by pension actuaries is to achieve an amount that is AT LEAST 10 times their “final pay” or salary right before retirement. And they won’t need to set up a new one to make these contributions.

Further, to accomplish this, all that needs to be done is that the disclosure I am recommending be made mandatory. No law needs to be changed to allow Americans to roll their 401(k) assets to an IRA, since that type of rollover is already authorized under the law, but not being used to its full potential due to Americans lack of familiarity with it.
Please Note: These recommendations are based on national averages and are intended to address public policy issues; they may not be appropriate for particular individuals.

Input Provided for Proposal Input for this proposal was provided by Robert L. Lakind, an ERISA attorney based in Lawrenceville, NJ and Phyllis Borzi, who was in charge of the Employee Benefits Security Administration under the Obama Administration. From 1979 to 1995, Borzi served as pension and employee benefit counsel for the U.S. House of Representatives, Subcommittee on Labor-Management Relations of the Committee on Education and Labor. In 1993, she served on working groups with the Clinton Task Force on Health Care Reform.

Biography of Jane White, President, Retirement Solutions, LLC

Jane White is the founder and president of Retirement Solutions, LLC an advocacy organization dedicated to 401(k) retirement adequacy and the author of “America, Welcome to the Poorhouse,” (FT Press, 2009), which has been favorably reviewed by the New York Times, Newsday and other publications.

In conjunction with pension actuary James Turpin, White offered recommended contribution rates based on participant starting ages to the ERISA Advisory Council in the fall of 2007. As a result of White’s testimony, the Working Group on Financial Literacy recommended that the Department of Labor “encourage plan communications that use income replacement formulas and final pay multiples.”

A Congressionally appointed delegate to the 2002 National Summit on Retirement Savings, White first observed the 401(k) savings crisis in 1993 as associate editor of Standard & Poor’s “Your Financial Future,” distributed to half a million 401(k) participants at Fortune 500 firms. She currently authors a blog on financial issues for the Huffington Post, has appeared on Fox Business News, CNN and CNBC, was a syndicated personal finance columnist for Gannett News Service and her articles have appeared in The New York Times, Barron’s, Working Woman, Newsday and Employee Benefit News.